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SUBJ: SECURITY ASSISTANCE OBJECTIVES AND GUIDELINES FY 1977-81

STATE PASS AID

USCINCSO ALSO FOR POLAD

REF: STATE 15489

1. IN VIEW OF THE LIMITED SECURITY ASSISTANCE RESOURCES
LIKELY TO BE PROVIDED TO URUGUAY, I SUBMIT A SUMMARY
STATEMENT RATHER THAN AN OVERALL ASSESSMENT OF THE
EFFECTIVENESS OF AND THE INTERRELATIONSHIP BETWEEN VARIOUS
ELEMENTS OF U.S. SECURITY ASSISTANCE. ALSO INCLUDED IS
A SUMMARY STATEMENT ON OTHER U.S. ECONOMIC ASSISTANCE,
THIRD COUNTRY MILITARY AND ECONOMIC ASSISTANCE AND THAT
OF INTERNATIONAL FINANCIAL INSTITUTIONS.

2. OVERALL ASSESSMENT OF THE NEED FOR U.S. SECURITY
ASSISTANCE: CONTINUED U.S. SECURITY ASSISTANCE IS RE-
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QUIRED IN FY 76 AND IN THE PLANNING PERIOD TO ENABLE THE

URUGUAYAN ARMED FORCES TO MAINTAIN INTERNAL SECURITY AND CARRY OUT A MODEST MODERNIZATION PROGRAM. THE ARMED FORCES HAVE BEEN GIVEN PRIMARY RESPONSIBILITY IN COUNTERING TERRORIST ACTIVITY WHICH, WHILE CONTAINED, HAS NOT BEEN ELIMINATED. WITHOUT OUTSIDE ASSISTANCE, LARGELY U.S., THEY WOULD BE HINDERED IN THIS EFFORT AND UNABLE TO CARRY OUT EVEN A MODEST MODERNIZATION.

3. OUR SECURITY ASSISTANCE IS DESIGNED TO SERVE POLITICAL OBJECTIVES AS WELL. THE ARMED FORCES, OVER THE PAST YEAR, HAVE INCREASED THEIR INFLUENCE ON BOTH THE POLICY-MAKING AND PROGRAM IMPLEMENTATION LEVELS IN GOVERNMENT. THIS INFLUENCE IS LIKELY TO REMAIN FOR SOME YEARS TO COME. I BELIEVE WE HAVE EXERTED A MODERATING INFLUENCE ON THE MILITARY, AN INFLUENCE WHICH, IF JEOPARDIZED AT THIS MOMENT IN URUGUAYAN HISTORY, COULD IMPACT ADVERSELY ON OUR DAY-TO-DAY RELATION WITH ALL ELEMENTS OF GOVERNMENT. WHILE I BELIEVE THAT THE GOU'S MUTUALITY OF INTERESTS AND ITS COOPERATIVE ATTITUDE TOWARD THE U.S. WOULD PRECLUDE A RADICAL CHANGE IN GOU POLICIES, A REDUCTION OF MAP OR EVEN A CONTINUATION OF THE ALREADY LONG SERIES OF IRRITANTS IMPOSED ON THE APPLICATION OF MAP COULD MAKE RELATIONS MORE DIFFICULT.

4. ALTHOUGH THE CASP HAS NOT YET BEEN COMPLETED, THERE WILL BE NO POLICY DIFFERENCES BETWEEN IT AND THE POM. BOTH WILL PROJECT A MODERATE PROGRAM INCLUDING FMS CREDITS, TRAINING, MATERIAL AND EDA. THEY ARE DESIGNED TO SUPPORT A PROGRAM PROVIDING FOR A LIMITED MODERNIZATION OF URUGUAY'S ARMED FORCES WHILE LIMITING TO THE EXTENT POSSIBLE, THE OVERALL COST OF DEFENSE.

5. THE PROPOSED AID PROGRAM FOR FY 1976 AND U.S. ECONOMIC ASSISTANCE STRATEGY FOR THE SECURITY ASSISTANCE PLANNING PERIOD ARE CURRENTLY UNDER REVIEW IN CONNECTION WITH PREPARATION OF THE FY 1976-77 CASP.

6. WE HAVE TENTATIVELY PROJECTED FOR AID IN FY 1976 THE CONTINUATION OF A SMALL TECHNICAL ASSISTANCE PROGRAM (ABOUT \$700,000), AND A LOAN TOTALING \$10.0 MILLION TO

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ASSIST THE GOU IN AGRO-INDUSTRIAL DEVELOPMENT AND IN PROVIDING FARM MACHINERY SERVICES TO SMALL FARMERS. TECHNICAL ASSISTANCE IS EXPECTED TO CONTINUE IN FY 1977 AT A REDUCED LEVEL (ABOUT \$300,000). LOANS FOR AGRICULTURAL RESEARCH/TECHNICAL ASSISTANCE AND AGRICULTURAL COOPERATIVE DEVELOPMENT PLANNED FOR AUTHORIZATION IN FY 1975 ARE SCHEDULED FOR IMPLEMENTATION DURING MUCH OF THE PLANNING PERIOD. TENTATIVE PLANS CALL FOR THE BEGINNING OF PHASE-OUT OF THE

AID PROGRAM IN URUGUAY BY FY 1978.

7. AID STRATEGY HAS BEEN DESIGNED TO ASSIST THE GOU THROUGH ITS TRANSITION TO ECONOMIC RECOVERY WHICH IS EXPECTED TO BE WELL UNDERWAY BY 1978. THE PRINCIPAL OBJECTIVE OF THE AID PROGRAM IS TO ENCOURAGE AND ASSIST THE GOU TOWARD IMPROVING ITS ECONOMIC PERFORMANCE DIRECTED AT STIMULATING PRODUCTION UPON WHICH ECONOMIC AND SOCIAL PROGRESS DEPENDS.

8. THE GOU RECENTLY SIGNED AN ECONOMIC COOPERATION AGREEMENT WITH ARGENTINA PROVIDING CREDITS AND TRADE CONCESSIONS PERMITTING A RANGE OF URUGUAYAN EXPORTS TO ENTER THE ARGENTINE MARKET DUTY FREE. A SIMILAR AGREEMENT IS BEING NEGOTIATED WITH BRAZIL AND SHOULD BE IN OPERATION IN 1975. BILATERAL CREDITS HAVE ALSO BEEN RECEIVED FROM THE FEDERAL REPUBLIC OF GERMANY, ITALY, AND SOUTH AFRICA.

9. FOLLOWING THE IMF STANDBY AGREEMENT, WHICH IS EXPECTED TO BE SIGNED IN COMING MONTHS, THE GOU IS EXPECTED TO RECEIVE SUBSTANTIALLY EXPANDED ASSISTANCE FROM THE WORLD BANK (AGRICULTURAL DIVERSIFICATION, ENERGY) AND THE IDB (AGRICULTURE, ENERGY, SOCIAL INFRASTRUCTURE, COMMUNICATIONS, INDUSTRY) IN DEVELOPING ITS INFRASTRUCTURE AND IMPROVING ITS PRODUCTIVE BASE. THE AID LOANS BEING CONSIDERED WILL COMPLEMENT ASSISTANCE FROM OTHER AGENCIES IN THE KEY AGRICULTURE AREA.

10. IN RESPECT TO TECHNICAL ASSISTANCE, UNDP, THE LARGEST SINGLE PROGRAM, IS ACTIVE IN PUBLIC ADMINISTRATION, INDUSTRIAL AND EXPORT PROMOTION, AGRICULTURE, EDUCATION, AMONG OTHERS. THE OAS PROVIDES MODEST ASSISTANCE IN PUBLIC ADMINISTRATION, EDUCATION AND TRAINING. THIRD COUNTRY, AID AND INTERNATIONAL ASSISTANCE ACTIVITIES IN URUGUAY

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ARE COORDINATED THROUGH THE GOU OFFICE OF PLANNING AND BUDGET.

1. THE SECURITY ASSISTANCE PROGRAM CONTEMPLATED DOES NOT SIGNIFICANTLY DIVERT GOU RESOURCES FROM DEVELOPMENT PROGRAMS. I WISH, IN CLOSING, TO REFER TO PARAGRAPH 6B(8) OF THE REFTEL, WHICH STATES THAT GRANT ASSISTANCE AND CREDIT RESOURCES ARE NORMALLY TO BE CONCENTRATED ON THE PROVISION OF INVESTMENT (CAPITAL) REQUIREMENTS. DESPITE THE CONSTRAINT, OUR POM GIVES THE HIGHEST PRIORITY TO FOLLOW-ON SPARES MEASURE CALCULATED TO BEST SUIT URUGUAY'S PARTICULAR CIRCUMSTANCES. FIRST, IN LINE WITH OUR ECONOMIC PROGRAM IN URUGUAY WE ARE EMPHASIZING THE MAINTENANCE OF EQUIPMENT ON HAND AND DISCOURAGING CAPITAL INVESTMENT. SECOND, AND ALSO IN ORDER TO MEET OUR ECONOMIC OBJECTIVES,

WE PREFER TO SUPPLY ITEMS FOR WHICH FOREIGN EXCHANGE WOULD
HAVE TO BE EXPENDED AND HAVE URUGUAY, WHICH HAD A \$70 MILLION
BALANCE OF PAYMENTS DEFICIT LAST YEAR, SUPPORT
THE PESO COSTS OF ITS DEFENSE ESTABLISHMENT. FINALLY,
OUR GRANT PROGRAM, WHICH MUST BE SPREAD AMONG THREE SERVICES,
IS NOT LARGE ENOUGH TO PERMIT US TO GET INTO MAJOR INVEST-
MENT ITEMS. AS PER GUIDANCE, WE DO URGE USE OF CREDIT
RESOURCES TO MEET IMPORTANT INVESTMENT REQUIREMENTS.

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